

Senior Executives Association



TESTIMONY
ON
DEVELOPMENT OF A SUPPLEMENTAL
CIVIL SERVICE RETIREMENT PLAN
BEFORE
COMMITTEE ON POST OFFICE AND CIVIL SERVICE

CHAIRMAN
WILLIAM D. FORD

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13 MARCH 1984

Chairman and members of the House Post Office and Civil Service Committee, thank you for the opportunity to present the views of the Senior Executives Association on this important subject of the design of a new retirement system for federal employees. I would like to first thank you Chairman Ford for your concern about and careful consideration of this subject. The design of a new retirement system for federal employees is the most significant matter affecting federal employment. We appreciate your cautious consideration of this subject and urge that you continue to move carefully in this important area.

This subject is of keen interest to our members who are greatly concerned about the effectiveness, productivity and efficiency of the government. The Federal Government's attraction for potential and current employees has historically been based on a pay system comparable to that of the private sector, a fair and equitable retirement program, and a public image of service to our country. In recent years, however, all these important aspects of public service have been eroded. As one California NASA executive related to me recently, "We are doing the most exciting work in the world, and I can't hire high calibre engineers to work for us."

Pay, as compared to large corporations with which the government must compete for employees, is 20 percent below comparable private sector salaries. The image of government employees today is probably best characterized by the "bureaucrat doll", to which top government officials have

alluded, The doll, made of red tape, sits on top of paper. Contrast this to what former President Kennedy told the nation in his first State of the Union message; "Let the public service be a proud and lively career, challenging those who would cling to malicious stereotypes concerning government workers....and let every man and woman who works in any area of our national government, in any branch, at any level, be able to say with pride and honor in future years: I served the United States Government in that hour of our nation's needs."

Now even the current retirement system is being chipped away. It is essential that, for the Federal Government to be a credible employer in the eyes of its employees and prospective employees, its pay, benefits and image need a revitalization.

Consideration of the new retirement system must be viewed within this context. If the new retirement system is less attractive than the current one, then pay **must** be increased to offset the loss. Other important principles we believe must be considered in drawing up a new retirement system are as follows:

Any studies and comparisions to retirement plans in the private sector should be with large Fortune 200 companies. The Federal Government draws from the same labor pool as these large companies and its compensation and benefit packages must therefore be comparable. For example, most major corporations provide benefits that the Federal Government does not. At a minimum, they provide free medical and life insurance for their retirees.

We request that, in undertaking studies on private sector retirement plans, comparisons be made of features these plans have for executives and top management officials. Such features should be comparable for our executives and managers for the new federal retirement program.

The government must not make the mistake of allowing its current fiscal problems to dictate the design of a new retirement program. Payouts for the new system are 20-35 years off, and it would be shortsighted to adopt a new system designed to achieve short term cost savings which would damage the long term hiring ability of the government.

We would like to see a study on the change in earning needs for people when they retire. Because of the change in lifestyle and financial needs during retirement, it is generally accepted that people need a smaller income to maintain their standard of living. What this replacement income average should be is vague. It would seem that determination of this replacement income need and its relationship to Social Security would be a logical first step in designing a new federal retirement system.

We would also recommend that a non-partisan federal retirement board be established which would be responsible for the management of the retirement system. An executive director would be appointed to serve under the direction of the board. As we are all too acutely aware, the question of retirement reform and the handling and investment of retirement system funds, a difficult undertaking under any situation, has become complicated by politics.

In terms of the current Civil Service Retirement System, we strongly support continuation of the current system without any changes. We support passage of a provision requiring the Federal Government to maintain adequate funds in the trust fund to assure future payments to annuitants. I would also like to call upon responsible elected officials to stop referring to the CSRS as an "overly generous" retirement system. The current retirement system is a fair and equitable system which pays benefits comparable to those of top private sector firms. It would be portrayed in this light.

In terms of the actual design of the new system, we would like to point out what is the most common private sector pension scheme. This system might well be the best avenue for the Federal Government to follow.

Such a system has three tiers. First is Social Security. The second tier is a defined benefit plan to provide a salary replacement in the range of 70-80 percent at age 65 with 40 years of service. This replacement income would be offset by Social Security. There would be reduced benefits for early retirement, such as the current 56% at age 55 with 30 years. Similarly, there would be reduced benefits at retirement at age 60 with 10 years. Employees are vested in these systems after 5 years. These systems are fully employer funded and use private sector investment to maintain their income flow.

A voluntary investment incentive plan would be the third tier. This plan would allow tax deferred employee contributions of up to 15 percent of salary with the government matching up to a certain percent of the employee's contribution. This thrift plan should be invested in the private sector, and controlled by an independent Federal Retirement Board.

Thank you for the opportunity to testify. Again, we both appreciate and congratulate your efforts on this important issue.